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**Date:** 9/29/2003

**GAIN Report Number:** AR3037

## Argentina

### Livestock and Products

### Annual

### 2003

**Approved by:**

Robert Hoff  
U.S. Embassy

**Prepared by:**

Ken Joseph

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**Report Highlights:**

Despite an isolated foot and mouth disease outbreak declared in late August, Argentine beef exports for 2004 are projected to increase slightly at 350,000 metric tons as a result of expected stronger FOB prices. The impact of the outbreak is believed to be marginal in those markets (e.g. EU) to which the country was already exporting. However, the reopening of the very attractive U.S. and Canadian markets will be delayed. Beef production and the cattle herd are expected to remain quite stable. On the one hand, cattlemen are enjoying the best returns in the past decade, but incredibly good returns in soybean production have led to the displacement of cattle which have been pushed to more marginal areas.

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Includes PSD Changes: Yes  
Includes Trade Matrix: No  
Annual Report  
Buenos Aires [AR1]  
[AR]

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**SECTION I. SITUATION AND OUTLOOK**

Argentine beef exports for 2004 are projected slightly up at 350,000 MT as most traders expect FOB prices to increase from current low values. The fact that Uruguay is again shipping fresh beef to the US could allow Argentina to export at better prices to markets that the neighboring country would partially leave aside. Beef production is also expected to increase marginally, but sufficiently enough to cover a stronger international demand. The processing capacity for export has increased significantly in the past several months.

Export markets for 2004 are forecast to be quite similar to those of 2003 as there are no expectations of major new countries accepting Argentine fresh beef. The main markets for chilled boneless cuts will be the EU, with Hilton quota prime cuts, the bulk of which will go to Germany and the UK; Chile, which is a large volume market for more inexpensive forequarter cuts; and Brazil which takes primarily the “picanha” cut (cap of rump), although a few different cuts could be added in the future. The main markets for frozen boneless cuts are expected to be Israel, with kosher beef, and Bulgaria, Russia, South Africa, Algeria, Egypt, and Hong Kong. These are markets of inexpensive beef, but add volume and help exporters to integrate the use of carcasses in a more efficient way with exports of high value prime cuts to the EU. Processed beef is also a large category and the main markets are expected to continue to be the U.S., the EU, and Hong Kong. In mid-2003, the U.S. allowed the entry of Argentine diced cooked individually quick frozen (IQF) beef, which results in a higher value added product. Traders project that most of Argentina’s exports of frozen cooked beef to the U.S. will shift to this type of product in the near future. Several packers are developing other new products such as controlled portions, kosher products, and premium burgers.

In late August, an outbreak of foot and mouth disease (FMD) in swine was declared in a remote farm in the northern part of Argentina. However, its impact on beef exports is expected to be relatively small. Most exporters and government officials are confident that the few markets which have temporarily shut down, and have not opened yet, like Brazil, Paraguay and Chile will reopen in the next few weeks. There is concern, however, about Chile’s position, which today represents a good market, especially for most cuts that remain from exports to the EU. However, most sources are expecting Chile to reopen its market in a shorter time than their stipulated period of 6 months from the date of the last outbreak. The EU announced that it would continue to import beef from Argentina, with the exception of product coming from the infected area. Important markets such as Israel, the Russian Federation, Poland, and Bulgaria remain open. The most significant negative impact of this crisis is the delay of the opening of the U.S. and Canadian market for fresh beef. An APHIS team was expected in October to have conducted an FMD risk assessment, which would have opened up the possibility of Argentina’s resuming exports of fresh beef to the U.S. in the future. After the FMD episode, however, the risk assessment was postponed indefinitely. Most traders want the US and Canadian markets to open up because it would increase Argentina’s FOB prices, since those markets generally pay higher prices.

Beef exports for 2003 are expected to reach 330,000 MT, but could be somewhat lower depending on the length of time some key markets remain closed due to the FMD outbreak. Beef exports from mid-2002 strengthened significantly and most factors suggested strong exports for 2003. However, as time went by, good returns began to vanish, as several factors

impacted negatively on exports. The most important ones were: 1) the strengthening of the peso, which went from 3.85 to a dollar in June 2002 to 2.80 pesos to a dollar in June 2003 (the exchange rate for the remaining of 2003 and 2004 is projected to fluctuate between 2.80 and 3.10 pesos to a dollar); 2) significantly increased costs, in dollars, for cattle (over 80 percent comparing June 2003 to June 2002); 3) a stagnant and limited beef supply, especially heavy steers for export; 4) weak world beef prices; and 5) fierce competition from Brazilian product.

The following table shows the type of products that Argentina mostly exports (in tons of product weight):

Product	2002	2003*
Cuts-boneless frozen	98,780	30,891
Cuts-boneless chilled	60,258	28,251
Cuts-bone-in frozen	984	2,582
Processed	69,443	26,109

\* through May

Argentine FOB beef prices have been falling in the past several years due to sanitary reasons, world events, and fierce competition from Brazil, which operates in the same markets as Argentina. Brazil in the past several years has increased its beef exports significantly, especially in the period in which Argentina was out of most markets due to the FMD crisis. Brazilian traders are very competitive and aggressive.

The following table shows how Argentine export prices declined in the past several years (in \$ per ton):

Product/Year	2000	2001	2002	2003*	'03/'00
Cuts boneless frozen	2,010	2,080	1,260	1,400	-30%
Cuts boneless chilled	4,560	3,750	3,670	3,830	-16%
Cuts bone in frozen	1,290	1,560	1,060	1,060	-18%
Processed	2,190	2,190	1,850	1,710	-22%

\* through May

As of August 2003, SENASA, the Argentine agricultural and food regulatory agency, requires that all ranches and feedlots registered for exports need to identify all animals with a tag for traceability purposes. This is the result of increased sanitary demands from a few clients, especially the EU. Although there were some minor problems at the beginning of the implementation of the system, most producers consider this measure to be good. Cattle that have already been sent for slaughter need to be tagged, and by mid-2004 all cattle in these ranches or feedlots will have to be identified. This measure creates opportunities to improve the quality and reliability of local beef products.

Beef imports for 2004 are forecast to fall to 8,000 tons because of a slow local consumption and more expensive imports. Most imports are short ribs from Uruguay, where cattle prices increased after the U.S. opened its market for fresh beef last June. Argentina still prohibits the importation of U.S. sweetbreads, alleging BSE risk. USDA is working with SENASA officials to solve this problem which in 2000-01, represented a \$4 million dollar market. Despite the devaluation, local importers believe there is still a good market for sweetbreads.

The following table shows Argentina's import and export tariffs, and export rebates (in percentage):

Product	Import Tariff	Export Tax	Export Rebate
Bone in beef	11.5	5.0	1.35
Boneless beef	13.5	5.0	2.7
Processed beef	17.5	5.0	5.0-6.0

Although cattle and beef production for 2004 is forecast to remain relatively stable as there are no strong signs that could make the market change from its current balance, the sector is undergoing a period of structural changes. After the strong devaluation of early 2002, farmers and cattlemen have improved significantly their profitability. Crop production, especially soybeans, is providing excellent returns, much higher than finishing cattle. Therefore, most producers are dedicating more and more land to agriculture, reducing the area devoted to pastures for fattening cattle. Private sources indicate that in the past two years, the approximately 5 million hectares of alfalfa pastures have declined by half, a process encouraged by serious weather problems associated to drought and floods. The production of low-cost roundup-ready soybeans with no-till farming is expanding further the agricultural frontier displacing cattle out more and more. Many cattle finishers keep their cattle under a more intensive management. They either "stack" them in smaller fields in which they are forced to provide some sort of feed supplementation, put them in feedlot "hotels" or send them to other ranches further away. Cow-calf production will remain in farms, but only in those fields in which agricultural production is not feasible, and will make use of crop stubble. There are several cow herds which are moving from Buenos Aires, southern Santa Fe, east and southern Cordoba and south Entre Rios to provinces such as La Pampa, San Luis, Formosa, and Salta. These provinces have been under-utilized in the past, and many areas lack good infrastructure. Some people believe these areas will rapidly become important calf producers.

Argentines continue to be the largest per capita beef consumers in the world and this will be difficult to change in the near future. Even under the most serious economic crisis in history, in which retail beef prices increased over 80 percent, domestic consumption remained at historic levels. Roughly 10-15 percent of total beef output is exported every year. However, the potential to export is big. If world beef prices would be stronger and all markets could be accessed, Argentina could direct more beef to external markets quite easily. Export packers indicate that with the current demand mix (foreign and local markets), the price in carcass is roughly \$1.20 per kilo, but if all markets would be open, the price would rapidly increase to \$1.70-2.0 per kilo.

Just after the devaluation and the economic crisis of early 2002, exporting beef became a very profitable business, since a very weakened peso favored exports. Meat packers bought steers at about half the price in dollars than a year before, while overhead costs, services, and taxes remained practically the same in pesos. Moreover, the price of raw hides and by-products increased in dollar terms. During this period, almost every slaughter plant in Argentina was reopened. Several export packers have invested in new technology and increased processing capacity. Many meat packers that focus exclusively on the domestic market have also invested in improving plants, especially those that work with supermarkets that demand higher quality and sanitary standards. These plants could be converted quite rapidly into export plants with minor adjustments.

There is no official policy directed to the local beef complex, and producers expect no significant change. The newly elected government has strongly indicated that it will favor small and medium local companies. However, so far, the local agricultural sector has not

been favored by the government, which says that farmers have been the biggest beneficiaries of the devaluation and the economic crisis. There are several private entities that have identified the problems of the beef chain, and have proposed ideas of how to overcome them, but they point out that it is the government's responsibility to implement most of these. These changes include: applying the same sanitary standards and requirements for all packers (for domestic and export markets); clamping down on tax evasion and marginal marketing; eliminating government inefficiencies, especially several taxes which limit efficiency and growth; encouraging value-added products; improving quality and implementing total traceability; encouraging through transparent policies the adoption of very low cost management tools to improve the efficiency at the cow-calf and the feeding level; and promoting beef exports. Some of these measures have already been implemented piecemeal in the past several years, but this approach should be global, taking into account production, processing and marketing simultaneously. These entities estimate that if this would be done, Argentina in 5 to 7 years could be producing over 3.5 million tons and exporting over 1 million tons of beef.

The Beef Promotion Institute, after several years of going back and forth, began operating in early 2003. Its objective is to promote the consumption of Argentine beef both domestically and worldwide. The funding is made through a check-off program, similar to the one in the US. As of October 2003, SENASA will start collecting the money on behalf of the Institute. The level of funding is based on an index of live steer, of which cattlemen pay 70 percent and packers pay the balance. The index that will be applied at the start is estimated to be 1.80 pesos per slaughtered animal, equivalent to one kilo of live steer. The total amount collected is estimated to be roughly \$7 million a year. Most people believe the Institute is necessary, but some players question its effectiveness.

## SECTION II. STATISTICAL TABLES

## PSD Table

Country	Argentina						
Commodity	Meat, Beef and Veal				(1000 MT CWE)		(1000 HEAD)
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official	Estimate [DA Official]	Estimate [DA Official]	Estimate [New]	Estimate [New]	Estimate [New]	
Market Year Begin	01/2002	01/2002	01/2003	01/2003	01/2004	MM/YYYY	
Slaughter (Reference)	12300	12300	12600	12300	0	12600	(1000 HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT CW)
Production	2700	2700	2800	2650	0	2750	(1000 MT CW)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CW)
Other Imports	10	9	10	12	0	8	(1000 MT CW)
TOTAL Imports	10	9	10	12	0	8	(1000 MT CW)
TOTAL SUPPLY	2710	2709	2810	2662	0	2758	(1000 MT CW)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CW)
Other Exports	340	350	390	330	0	350	(1000 MT CW)
TOTAL Exports	340	350	390	330	0	350	(1000 MT CW)
Human Dom. Consumptic	2370	2359	2420	2332	0	2408	(1000 MT CW)
Other Use, Losses	0	0	0	0	0	0	(1000 MT CW)
TOTAL Dom. Consumptic	2370	2359	2420	2332	0	2408	(1000 MT CW)
Ending Stocks	0	0	0	0	0	0	(1000 MT CW)
TOTAL DISTRIBUTION	2710	2709	2810	2662	0	2758	(1000 MT CW)
Calendar Yr. Imp. from U.	0	0	0	0	0	0	(1000 MT CW)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT CW)

**PSD Table**

Country	Argentina						
Commodity	Animal Numbers, Cattle				(1000 HEAD)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [	Estimate [	DA Official [	Estimate [	DA Official [	Estimate [New]	
Market Year Begin	01/2002		01/2003		01/2004		MM/YYYY
Total Cattle Beg. Stks	50369	50369	50869	50869	50968	51119	(1000 HEAD)
Dairy Cows Beg. Stocks	2200	2200	2150	2150	0	2150	(1000 HEAD)
Beef Cows Beg. Stocks	18500	18500	18400	18400	0	18600	(1000 HEAD)
Production (Calf Crop)	13800	13800	13700	13600	0	13500	(1000 HEAD)
Intra EC Imports	0	0	0	0	0	0	(1000 HEAD)
Other Imports	0	0	0	0	0	0	(1000 HEAD)
TOTAL Imports	0	0	0	0	0	0	(1000 HEAD)
TOTAL SUPPLY	64169	64169	64569	64469	50968	64619	(1000 HEAD)
Intra EC Exports	0	0	0	0	0	0	(1000 HEAD)
Other Exports	0	0	1	0	0	0	(1000 HEAD)
TOTAL Exports	0	0	1	0	0	0	(1000 HEAD)
Cow Slaughter	4200	4200	4000	4200	0	4200	(1000 HEAD)
Calf Slaughter	1600	1600	1700	1800	0	1900	(1000 HEAD)
Other Slaughter	6500	6500	6900	6300	0	6500	(1000 HEAD)
Total Slaughter	12300	12300	12600	12300	0	12600	(1000 HEAD)
Loss	1000	1000	1000	1050	0	1000	(1000 HEAD)
Ending Inventories	50869	50869	50968	51119	0	51019	(1000 HEAD)
TOTAL DISTRIBUTION	64169	64169	64569	64469	0	64619	(1000 HEAD)



# Prices Table

## Country Commodity

Argentina

Meat, Beef and Veal

Prices in

Pesos

per uom

Kilo

Year

Jan

Feb

Mar

Apr

May

Jun

Jul

Aug

Sep

Oct

Nov

Dec

2002

2003

% Change

3.41

6.23

82.70%

3.65

6.21

70.14%

3.69

6.25

69.38%

4.54

6.2

36.56%

4.53

6.15

35.76%

4.58

6.04

31.88%

4.62

6.05

30.95%

5.6

6.06

8.21%

6.04

-100.00%

6

-100.00%

6.03

-100.00%

6.11

-100.00%

Exchange Rate

2.90/1

Local currency/US \$

Date of Quote

09/30/03

MM/DD/YYYY

## Prices Table

<b>Country</b>	Argentina		
<b>Commodity</b>	Animal Numbers, Cattle		
Prices in	Pesos	per uom	Live kilo
Year	2002	2003	% Change
Jan	0.749	2.012	168.62%
Feb	0.877	2.009	129.08%
Mar	0.919	1.953	112.51%
Apr	1.301	1.869	43.66%
May	1.284	1.836	42.99%
Jun	1.37	1.836	34.01%
Jul	1.534	1.841	20.01%
Aug	1.93	1.908	-1.14%
Sep	2.063		-100.00%
Oct	2.035		-100.00%
Nov	2.067		-100.00%
Dec	2.093		-100.00%
Exchange Rate	2.90/1	Local currency/US \$	
Date of Quote	9/30/2003	MM/DD/YYYY	

## SECTION III. SUPPLY AND DEMAND

### Production

Although official statistics on inventories differ considerably (48-55 million), most analysts agree that the herd is quite stable and there are no signs of major factors that could impact on the 2004 stock. However, on one hand, there is a movement of cattle from the richer soils where crops can be grown to more marginal areas. But on the other hand, profitability in the cattle business is the best in the past decade. As long as the major import markets remain closed, primarily the US and Canada (and at a second, but longer term stage, Japan and Korea), there will not be significant fluctuations in cattle numbers, unless there is some serious weather problem.

With a relatively stable herd, it is probable that the extraction rate will not change in the short term. Last year, with the strong devaluation, feed prices, which were pegged to the dollar, increased dramatically forcing many feedlots to close down while the total number of cattle in feedlots dropped considerably. However, in mid-2002 they began filling up again as more cattle were removed from pastures to expand cropping, and were put into more intensive feeding. Together with this, there were serious floods in Santa Fe province, which is a major cattle and dairy producing area. The winter of 2003 was very harsh, with a long dry period that forced many cattlemen to finish their cattle in feedlots. Currently the capacity in use is over 80 percent, even higher than in 2001, when roughly 12-15 percent of the total cattle slaughter was originated in feedlots. Practically all feedlots are open and many are expanding their capacity. There are many different reasons and factors affecting the feedlot business, but in general, it is not an exceptionally profitable business nowadays. The number of cattle confined is projected to grow in the next few years as more pastureland is dedicated to crop production and cattle moved to more marginal areas where finishing on pastures is more difficult.

Almost 70 percent of the animals finished in feedlots are very light heifers and steers, weighing 240 kilos live at slaughter. This type of business accelerates beef production, but the country's overall beef output is negatively affected as average carcass weights fall. As major foreign markets open, we could see heavier animals finished in feedlots, especially now that beef from these operations can be exported.

Profitability in the beef sector increased significantly as the result of the devaluation in January 2002. Cattle prices increased dramatically, while production and overhead costs increased at a much lower level. This will make many cattlemen improve their operations, adopting low-cost technologies and effective management tools. The current market of bulls is doing very well, with good demand and prices in all auctions. Also educational seminars focusing on cow-calf and feeding operations are very well attended. In the next few years there should be an improvement in reproductive and production rates. Average pregnancy and weaning rates in Argentina are low compared to other major cattle producing countries, especially associated to on-farm weak sanitary programs and sub-nutrition.

Despite the devaluation, the high profitability of the local agricultural sector has made land prices rise. In the province of Buenos Aires land in cow-calf areas is selling for \$600 per hectare, while land for fattening is selling at \$1,600 per hectare. In both cases current prices in dollar terms are over 50 percent higher than the average of the past 25 years. There are very few ranches for rent, and rental prices have also increased significantly.

Steer prices are roughly at 1.90 pesos per live kilo, or about US\$0.65. Most sources indicate that no major changes should be expected for 2004. There are no price incentives or

government price supports for the beef sector. In 2002 and 2003 heavy steers received price premiums as exporters competed strongly for that category in order to comply with the very lucrative Hilton quota.

Argentina is one of the world's largest grains and oilseeds exporter. Therefore, the availability of feed for its meats and dairy sectors is assured.

The local dairy sector has been shrinking in the past several years. Low farmgate milk prices in 1999-2002 made many dairymen quit or reduce their operations. In 2002, after the devaluation, the aggressive expansion of soybeans forced a further reduction of land devoted to dairy. However, in 2003, with a significant milk shortage, prices began to increase and returns have become very attractive. Dairy production is expected to begin growing as a result of better management.

### Consumption

Beef consumption for 2004 is projected to increase marginally from the previous two years due to a larger beef output. Argentines continue to be the largest per capita beef consumers in the world and it will be difficult to change this strong cultural habit. Despite an increase in retail beef prices of around 80 percent since December 2001, consumption has remained practically unchanged. During the last year and a half, inflation reached 40 percent, unemployment continued to be high, and the purchasing power of most Argentines decreased significantly.

The following table shows current retail prices of different meats and the price increase since December 2001, when the economic crisis started (pesos per kilo):

Product	Price 08/2003	Increase 12/2001
Beef	6.06	82%
Chicken	3.67	116%
Fish	7.32	66%
Cooked ham	12.87	60%

Argentina has conditions to produce pork but its output remains limited. In the past several years cold cut processors have had to import large volumes of raw material to meet demand. Per capita consumption has been around 8 kilos, but after the devaluation consumption dropped 40 percent as the result of higher prices. Approximately 90 percent of pork consumption is in the form of cold cuts, while only 1 kilo per capita is consumed as fresh meat. Also since the devaluation, consumption of poultry declined 30 percent as retail prices more than doubled (due to higher feed costs tied to the dollar). Per capita consumption went from 24 kilos in 2001 to 17 kilos in 2003. However, consumption is beginning to recover.

Sales of beef in supermarkets, which once had accounted for one third of the total of beef purchases, dropped as consumers went back to the smaller stores, closer to their homes and where they could buy with some credit. In the city of Buenos Aires roughly 75 percent of the beef is currently sold in butcheries. There are at least 5 large retail companies that purchase cattle, do their own slaughter, de-boning and packaging. Of those, four are also exporting with very good results, since it allows them to better use the whole carcass.

